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BEFORE THE DEPARTMENT OF CORPORATIONS
OF THE STATE OF CALIFORNIA

In the Matter of)	
)	
THE CALIFORNIA CORPORATIONS)	FILE NO. 137937
COMMISSIONER,)	
)	ORDER DENYING APPLICATION FOR AN
Complainant,)	INVESTMENT ADVISER CERTIFICATE
v.)	PURSUANT TO CORPORATIONS CODE
)	SECTION 25232
)	
MICHAEL E. STEVENSON,)	
)	
Respondent.)	
)	
)	
)	
)	

TO: Michael E. Stevenson
27131 Sapphire Street
Menifee, CA 92584

1. On February 21, 2006, the Department of Corporations ("Department") brought an action to deny a certificate of investment adviser to Respondent Michael E. Stevenson ("Stevenson") pursuant to Corporations Code section 25232. At all relevant times Stevenson was the sole proprietor doing business as Stevenson Investment Adviser. Stevenson has operated as a sole proprietor doing business as Stevenson Investment Adviser since August 1978 and is located 27131

1 Sapphire Street, Menifee, California 92584.

2 2. On November 18, 2005 the Commissioner issued a Desist and Refrain Order
3 (“Order”) to Stevenson and one of his companies, M.E. Stevenson, Inc. for the unqualified offer and
4 sale of securities in an investment club offered in the name of SOCM Enterprises, Inc. by means of
5 material misrepresentations and omissions, and for acting as an investment adviser without having
6 first secured a certificate from the Commissioner in violation of the California Corporate Securities
7 Law sections 25110, 25230, and 25401.

8 3. Stevenson and the owner of SOCM Enterprises, Inc., Steve O. Cooper, Sr. (“Cooper”)
9 agreed to form an “investment club” of which Stevenson and Cooper would be co-owners and
10 agreed that the investment club would be offered in the name of SOCM Enterprises, Inc., and
11 promised investors returns from the trading of options. Stevenson is the founder and president of
12 M.E. Stevenson, Inc., and agreed to select and place trades on behalf of the investment club and
13 provided and charged for investment advice under a “Syndicate Agreement” with Cooper.
14 Stevenson and Cooper agreed to split the profits earned from Stevenson’s trading of investment club
15 funds without telling the investors.

16 4. Prior to the Order being issued to Stevenson, the Commissioner issued a Desist and
17 Refrain Order to Stevenson’s business partner under the Syndicate Agreement, Steve. O. Cooper, Sr.
18 for the sale of unqualified securities offered in the name of the same investment club SOCM
19 Enterprises, Inc.

20 5. On November 15, 2005, Stevenson filed an application for an investment adviser
21 certificate with the Department. The application revealed that Stevenson has a history of engaging
22 in investment adviser activities without a license.

23 6. The application shows that Stevenson has provided financial planning services, and
24 the investments made based on those services at the end of his last fiscal year totaled between
25 \$100,001 to \$500,000 in securities investments. Stevenson also represented in the application for an
26 investment adviser certificate that he has managed an income producing portfolio for 18 years and
27 that he has been a sole proprietor doing business as Stevenson Investment Adviser since August,
28 1978, although no investment adviser license has been issued to that business by the Commissioner.

1 7. Stevenson also falsely represented in his investment adviser application that his
2 business partners Steve O. Cooper, Sr. and SOCM Enterprises, Inc. under the Syndicate Agreement
3 had not been issued the Desist and Refrain Order by the Commissioner on August 15, 2005.
4 Specifically, Stevenson falsely represented that no business partners had been found by the
5 Commissioner to have been involved in a violation of investment-related regulations or statutes, had
6 not been entered an order in connection with an investment-related activity, and has not been
7 prevented by order from associating with an investment-related business and whose activity has been
8 restricted.

9 8. Stevenson's last filing to the Commissioner for an investment adviser certificate was
10 on December 13, 2005. At no time did Stevenson ever amend any of his filings to become an
11 investment adviser to disclose as required the fact that he had been subject to the Commissioner's
12 Order issued November 18, 2005 and served upon him on December 5, 2005.

13 9. Stevenson is denied an investment adviser certificate pursuant to Corporations Code
14 section 25232 for acts committed as specified under subsections (d) and (e). Corporations Code
15 section 25232 provides, in pertinent part:

16 The commissioner may, after appropriate notice and opportunity for
17 hearing, by order censure, deny a certificate to, or suspend for a period not
18 exceeding 12 months or revoke the certificate of, an investment adviser, if
19 the commissioner finds that the censure, denial, suspension, or revocation is
20 in the public interest and that the investment adviser, whether prior or
21 subsequent to becoming such, or any partner, officer or director thereof or
any person performing similar functions or any person directly or indirectly
controlling the investment adviser, whether prior or subsequent to becoming
such, or any employee of the investment adviser while so employed has
done any of the following:

22 (d) Is or has been subject to...(3) any other order of the commission or
23 any administrator, association, or exchange referred to in this subdivision
24 which is or has been necessary for the protection of any investor.

25 (e) Has willfully violated any provision of . . . Title 4 (commencing with
26 Section 25000)... or of any rule or regulation under any of those statutes, or
any order of the commissioner which is or has been necessary for the
protection of any investor.

27 10. Stevenson is subject to a Desist and Refrain Order issued by the Commissioner on
28 November 18, 2005, which is necessary for the protection of investors. Stevenson, therefore, is

1 denied a certificate as an investment adviser pursuant to Corporations Code section 25232 for acts
2 enumerated under subsection 25232(d)(3).

3 11. Stevenson has willfully violated provisions of Title 4, commencing with Section
4 25000, when he unlawfully sold unqualified securities in the investment club in the form of
5 investment contracts in violation of section 25110 of the Corporate Securities Law.

6 12. Section 25110 of the Corporations Code provides in pertinent part:

7
8 It is unlawful for any person to offer or sell in this state any security in an
9 issuer transaction...unless such sale has been qualified...or unless such
security or transaction is exempted...

10 13. Stevenson and Cooper agreed to form a so-called "investment club" of which they
11 would be co-directors. They created agreements for the club by adapting forms they downloaded
12 from the Internet site of a securities broker-dealer and agreed that the investment club would be
13 offered in the name of SOCM Enterprises, Inc. Stevenson and Cooper promised investment club
14 members returns from the trading of options.

15 14. Interests in the investment club offered by Stevenson are securities in the form of
16 investment contracts. The Department of Corporations has not issued a permit or other form of
17 qualification authorizing the offer or sale of interests in the investment club offered by Stevenson.

18 15. By offering and selling the interests in the investment club, Stevenson has willfully
19 violated provisions of Title 4, commencing with Section 25000, by unlawfully offering and selling
20 unqualified securities in the form of investment contracts in violation of section 25110 of the
21 Corporate Securities Law. Stevenson, therefore, is denied a certificate as an investment adviser
22 pursuant to section 25232 of the Corporations Code for acts enumerated under subsection 25232(e).

23 16. Stevenson willfully violated provisions of Title 4, commencing with Section 25000,
24 when he unlawfully provided and charged investors in the investment club for investment advice,
25 and when he admitted in his application for an investment adviser certificate to engaging in
26 investment adviser activities without having first secured a certificate from the Commissioner in
27 violation of section 25230 of the Corporate Securities Law.

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1 17. Section 25009(a) of the Corporations Code defines “investment adviser” and provides
2 in pertinent part:

3 “Investment adviser” means any person who, for compensation, engages
4 in the business of advising others, either directly or through publications or
5 writings, as to the value of securities or as to the advisability of investing in,
6 purchasing or selling securities....

7 18. Section 25230(a) of the Corporations Code provides in relevant part as follows:

8 It is unlawful for any investment adviser to conduct business as an
9 investment adviser in this state unless the investment adviser has first
10 applied for and secured from the commissioner a certificate, then in effect,
11 authorizing the investment adviser to do so or unless the investment adviser
12 is exempted by the provisions of Chapter 1 (commencing with Section
13 25200) of this part or unless the investment adviser is subject to Section
14 25230.1.

15 19. Stevenson and Cooper agreed that investment funds paid to SOCM Enterprises, Inc.
16 by club members would be transferred to M.E. Stevenson, Inc. for trading. They agreed that the
17 option trading would be performed by a “syndicate” comprised of M.E. Stevenson, Inc. and SOCM
18 Enterprises, Inc., but that Stevenson would be the only person responsible for selecting and placing
19 trades on behalf of the investment club. Stevenson received compensation for his investment adviser
20 services to the investment club.

21 20. Further, Stevenson willfully violated provisions of Title 4, commencing with Section
22 25000, in statements made to the Commissioner in his application for an Investment Adviser
23 Certificate in violation of section 25230 when he admitted to providing financial planning services,
24 and that the investments made based on those services at the end of his last fiscal year totaled
25 between \$100,001 to \$500,000 in securities investments. Further, Stevenson has admitted that he
26 has managed an income producing portfolio for 18 years and that he has been a sole proprietor doing
27 business as Stevenson Investment Adviser since August, 1978, although no investment adviser
28 license has been issued to that business by the Commissioner.

 21. Stevenson has conducted business in California as an investment adviser without
having first applied for and secured a certificate authorizing him to do so. Stevenson willfully
violated provisions of Title 4, commencing with Section 25000, when he engaged in investment

1 adviser activities for the investment club, and when he disclosed investment adviser activities in his
2 application for an investment adviser certificate to the Commissioner in violation of section 25230 of
3 the Corporate Securities Law. Therefore, Stevenson is denied a certificate as an investment adviser
4 pursuant to Corporations Code section 25232 for acts enumerated under subsection 25232(e).

5 22. Stevenson willfully violated provisions of Title 4, commencing with Section 25000,
6 when he unlawfully offered and sold investment club interests by means of misrepresentations and
7 omissions of material fact in violation of section 25401 of the Corporate Securities Law.

8 23. Section 25401 of the Corporations Code provides in pertinent part:

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10 It is unlawful for any person to offer or sell a security in this state or buy
11 or offer to buy a security in this state by means of any written or oral
12 communication which includes an untrue statement of material fact or omits
 to state a material fact necessary in order to make the statements made, in
 the light of the circumstances under which they were made, not misleading.

13 24. Pursuant to a two-page "Syndicate Agreement" that was signed by Stevenson and
14 Cooper, Stevenson agreed that any profits that were earned from his trading of options with
15 investment club funds above the earnings promised to club members would be split equally between
16 Stevenson's and Cooper's respective corporations. They agreed that every month, each could elect
17 either to withdraw or reinvest their half of the profits, or any portion of those profits as each
18 preferred. Investment club members were not informed of the "Syndicate Agreement" or of the fact
19 that Stevenson and Cooper had an agreement to split any profits the investment club obtained from
20 option trading in excess of members' earnings.

21 25. Stevenson willfully violated provisions of Title 4, commencing with Section 25000,
22 when he unlawfully offered and sold investment club interests by means of misrepresentations of
23 material fact and by means of communications which have omitted material facts necessary in order
24 to make the statements made, in the light of the circumstances under which they were made, not
25 misleading, in violation of section 25401 of the Corporate Securities Law. Therefore, Stevenson is
26 denied a certificate as an investment adviser pursuant to section 25232 of the Corporations Code for
27 acts enumerated in subsection 25232(e).
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1 26. Stevenson has willfully violation provisions of Title 4, commencing with Section
2 25000, when he failed to disclose in his application for an investment adviser certificate the fact that
3 his business partner had been issued a Desist and Refrain Order and when he failed to amend his
4 filings to disclose the fact that he had been issued the Order by the Commissioner on November 18,
5 2005 in violation of section 25166 of the Corporate Securities Law.

6 27. Corporations Code section 25166 provides in relevant part:

7 It is unlawful for any person willfully to make any untrue statement of a
8 material fact in any application, notice, or report filed with the
9 commissioner...or willfully to omit to state in any such application, notice,
or report any material fact which is required to be stated therein.

10 28. The instructions for the filing of an investment adviser application define “advisory
11 affiliate” to mean (1) all “officers, partners, or directors (or any person performing similar
12 functions);” and (2) “all persons directly or indirectly controlling or controlled by [the applicant]...”
13 Under the Syndicate Agreement, Steve O. Cooper, Sr. and SOCM Enterprises, Inc. were partners of
14 Stevenson and therefore advisory affiliates who were jointly responsible for the option trading
15 performed on behalf of the investment club. Therefore, Cooper and SOCM Enterprises, Inc., as
16 advisory affiliates of Stevenson under the Syndicate Agreement, were required to be disclosed by
17 Stevenson on his investment adviser application filings. Specifically, Stevenson falsely represented
18 that no advisory affiliates had ever been found to have been involved in a violation of investment-
19 related regulations or statutes, or that in the past ten years, no order had been entered in connection
20 with an investment-related activity, or had been prevented by order from associating with an
21 investment-related business or had activity restricted. The fact of Cooper and SOCM Enterprises,
22 Inc.’s Desist and Refrain Order issued August 15, 2005 is material and is required to be stated in an
23 application for an investment adviser certificate.

24 29. Once Stevenson had been issued the Order on November 18, 2005 and served on
25 December 5, 2005, at no time did Stevenson amend his investment adviser application filings to
26 disclose the fact that the Commissioner had issued him the Order. This fact is material and its
27 failure to be disclosed is in violation of section 25166 of the Corporations Code.

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1 30. Stevenson has willfully violated provisions of Title 4, commencing with Section
2 25000, by violating section 25166 of the Corporate Securities Law, when he willfully and falsely
3 stated in his application the material fact that his business partners, Steve O. Cooper, Sr. and SOCM
4 Enterprises, Inc. under the Syndicate Agreement had not been issued the Desist and Refrain Order
5 on August 15, 2005. Furthermore, Stevenson willfully violated section 25166 when he failed to
6 amend his application and willfully omitted to disclose the material fact that he had been issued the
7 Order on November 18, 2005. Therefore, Stevenson is denied a certificate as an investment adviser
8 pursuant to Corporations Code section 25232 for acts enumerated under subsection 25232(e).

9 31. On February 21, 2006, the Department initiated an administrative action to deny
10 Stevenson an investment adviser certificate. The Department issued and served Stevenson the
11 following at his last known business address located at 27131 Sapphire Street, Menifee, California,
12 92584 by personal service: Notice of Intention to Issue Order Denying Application for an Investment
13 Adviser Certificate Pursuant to Corporation Code section 25232; Statement of Issues in Support of
14 Notice of Intention to Issue Order Denying Application for an Investment Adviser Certificate
15 Pursuant to Corporation Code section 25232; Statement to Respondent; Government Code Sections
16 11507.5, 11507.6 and 11507.7; and a blank form Notice of Defense ("Denial Pleadings"). Mr.
17 Stevenson did not return or submit any Denial Pleadings in response to the Department's initiated
18 administrative action, nor has he requested a hearing on this matter within 30 days of service as
19 required, and the time period to do so has expired.

20 GOOD CAUSE APPEARING THEREFORE, IT IS ORDERED that Michael E. Stevenson's
21 Application for an Investment Adviser Certificate be denied pursuant to Corporations Code Section
22 25232.

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24 Dated: April 24, 2006

WAYNE STRUMPFER
Acting California Corporations Commissioner

25
26 By: _____

27 ALAN S. WEINGER
Acting Deputy Commissioner
28 Enforcement Division